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In the Supreme Court
OF THE
United States

OCTOBER TERM, 1964

No. 674

JACUZZI BROS., INC.,
Petitioner,

vs.

LANDON, INC.,
Respondent.

INTERNATIONAL MANUFACTURING CO., INC., et al.,
Petitioners,

vs.

LANDON, INC.,
Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

BRIEF FOR RESPONDENT IN OPPOSITION

PRELIMINARY STATEMENT

In this brief we will refer to pages in the brief and petition of petitioners as "P.B. ....", and to the appendix to the petition and brief of petitioners as "P.A. ....".

OPINION BELOW

The opinion of the United States Court of Appeals for the Ninth Circuit, printed at P. A. 3-15, has recently been reported at 336 F.2d 723.

JURISDICTION

The jurisdictional requisites are adequately set forth in the petition at P.B. 2.

QUESTIONS PRESENTED

The questions as presented by petitioner are much broader than are actually raised by the proceedings below. Involved here are two blocking patents which cover a single product, namely, a swimming pool skim filter. The facts clearly establish that in order to be commercially acceptable a skim filter cannot be built under the teachings of one of these two patents alone, because the only desire in the swimming pool industry is for a skim filter which incorporates the teachings of both patents.

The question presented is whether it is permissible for the owners of two patents which together cover a single particular product to require a licensee who desires to manufacture that particular product to take a license under both patents.

STATEMENT OF THE CASE

The factual background of the present case has been well summarized by the Court of Appeals for the Ninth Circuit, at 336 F.2d 723, 729 (P.A. 12) as follows:

"* * * The trial court found that, although the two patents were issued at different times, they together covered only a single article. No commercially feasible device could be manufactured under one of the patents without infringing the other. For this reason, Cavenah and Pace were found to be blocking, or interlocking, patents.

"Landon's first efforts to license manufacturers under the Cavenah patent alone were frustrated by the manufacturers' unwillingness to accept Cavenah without also being licensed under Pace. In order to end this impasse, Robert M. Pace, then owner of the Pace patent and Landon entered an agreement whereby (1) the Pace patent was assigned to Landon, (2) Landon granted Robert Pace a royalty-free, non-exclusive license under both patents, (3) Landon promised to license the patents collectively only, and (4) Landon and Robert Pace agreed to share royalties according to a set formula.

"No attempt was made to limit the number of licenses issued pursuant to this agreement. All licenses were offered under uniform terms and conditions to all who wished licenses. Since the agreement was entered into, no one has ever sought a license from Landon under the Pace patent alone or the Cavenah patent alone. Since the agreement was entered into no one has manufactured and marketed a Pace skim filter without also adding thereto the Cavenah vacuuming improvement."

ARGUMENT

The petition for writ of certiorari should be denied on the grounds that the decision of the Court below was

proper and just, and is in full harmony with previous decisions of this Court and the decision of the Court of Appeals for the Third Circuit in *American Securit v. Shatterproof Glass Co.*, 268 F.2d 769.

THE COMBINING TOGETHER OF SEPARATELY OWNED BLOCKING PATENTS IS DESIRABLE.

As previously mentioned, the Pace and Cavenah patents involved here are blocking patents, in that they both relate to a single particular swimming pool skim filter. No commercially feasible device could be manufactured under one of the patents without infringing the other. Attempts by Landon to license manufacturers under the Cavenah patent were frustrated because the manufacturers were unwilling to accept such a license without also being licensed under the Pace patent. Landon and Pace then joined together so that licenses could be offered under both patents. Licenses were then offered under uniform terms and conditions to all who wished licenses and so the public could lawfully obtain the full benefits of the efficiency and economy of the inventions.

The combining of blocking patents has been recognized as beneficial by this Court in *Standard Oil Co. v. United States*, 283 U. S. 163; 171:

> "* * * An interchange of patent rights and a division of royalties according to the value attributed by the parties to their respective patent claims is frequently necessary if technical advancement is not to be

blocked by threatened litigation.[5] If the available advantages are open on reasonable terms to all manufacturers desiring to participate, such interchange may promote rather than restrain competition. * * *"

"[5]This is often the case where patents covering improvements of a basic process, owned by one manufacturer, are granted to another. A patent may be rendered quite useless, or 'blocked,' by another unexpired patent which covers a vitally related feature of the manufacturing process. Unless some agreement can be reached, the parties are hampered and exposed to litigation. * * *"

This Court has also considered the effect of blocking patents in *United States v. Line Material Co.*, 333 U.S. 287:

"* * * The decision of the Patent Office, awarding dominant claims to Southern and subservient claims to Line on the Lemmon and the Schultz applications made it impossible for any manufacturer to use both patents when later issued without some cross-licensing arrangement. Cf. Temco Electric Motor Co. v. Apco Mfg. Co., 275 U.S. 319, 328, 48 S.Ct. 170, 173, 72 L.Ed. 298. Only when both patents could be lawfully used by a single maker could the public or the patentees obtain the full benefit of the efficiency and economy of the inventions. * * *

* * *

"* * * Undoubtedly one purpose of the arrangements was to make possible the use by each manufacturer of the Lemmon and Schultz patents. These patents in separate hands produced a deadlock. Lemmon by his basic patent 'blocked' Schultz' improvement. Cross-licenses furnished appellees a solution."

The dissenting opinion of Mr. Justice Burton, in *Line Material* has the following language at 333 U.S. 357:

> "In distinction from patent pools and from cross-licenses between holders of competing or even non-competing but unrelated patents, we have here a case of a cross-license and a division of royalties between holders of patents which are complementary and vitally dependent upon each other. We have here complementary patents each of which alone is commercially of little value, but both of which, together, spell commercial success for the product. Cross-licenses between their holders, on terms within the needs of their patent monopolies, are essential to the realization of the benefits contemplated by the patent statutes. Far from being unlawful agreements violative of the Sherman Act, such agreements provide in fact the only reasonable means for releasing to the public the benefits intended for the public by the patent laws. A cross-license between mutually deadlocked complementary patents is, per se, a desirable procedure. Standard Oil Co. v. United States, 283 U.S. 163, 170 et seq., 51 S.Ct. 421, 423, 75 L.Ed. 926."

In *Line Material* it was held by this Court that it was misuse of the patent pool to attach price fixing agreements as part of the licensing of the two blocking patents. *There is no price fixing agreement involved in the present matter.*

THE PACKAGE LICENSING OF TWO BLOCKING PATENTS DOES NOT INVOLVE AN UNLAWFUL "TYLING" ARRANGEMENT.

Petitioners allege that the Court below did not follow the decisions of the Court in *United States v. Paramount Pictures,* 334 U.S. 131, and *United States v. Loews, Inc.,* 371 U.S. 38, wherein tying arrangements involving motion pictures were held to be unlawful.

However, as pointed out by the Court below, a "tying" arrangement involves two separate and distinct products and is defined as "an agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier." *Northern Pac. R. Co. v. United States,* 356 U.S. 1. The wrong created by a "tying" agreement has been stated by this Court in *Times-Picayune v. United States,* 345 U.S. 594, as follows:

> "The common core of the adjudicated unlawful tying arrangements is the forced purchase of a second distinct commodity with the desired purchase of a dominant 'tying' product, resulting in economic harm to competition in the 'tyed' market."

The Court below was, therefore, clearly correct in holding that the blocking patents here do not present a "tying" situation, since only one product, the skim filter, is involved, with a license under both patents being necessary to enable the licensee to manufacture the filter lawfully.

IT IS NOT UNLAWFUL TO REQUIRE THAT TWO BLOCKING PATENTS BE LICENSED AS A UNIT.

Since there is no "tying" involved in a license of two blocking patents, then it is proper to require that both patents be licensed as a unit.

The sound rationale of the Court below on this point is as follows:

> "It follows that it is not an unlawful tying arrangement for a seller to include several items in a single mandatory package when the items may be reasonably

considered to constitute parts of a single distinct product. A license package containing blocking patents may be considered a single distinct product. By definition, blocking patents disclose interdependent parts of the same product. The product—in this case a skimming and filter device for swimming pools—is no less a single product because its novel aspects are disclosed by two interlocking patents. In such a case, not only is it not unreasonable to treat both patents as constituting a single product, but also licensing them in a package deal appears to be the most practical way of making them available for public use.

"There is a further consideration which supports the result we reach here. If we were to condemn mandatory package licensing of blocking patents as a patent misuse, an owner of a blocking patent complex would be compelled to license only a part of the patent complex. This would be true even though he knew full well that the licensee would be able to use the patents only by violating the remaining unlicensed patents.

"A patent infringement suit arising from such circumstances could produce only one of two results: (1) it would be held that the licensee has obtained a useless license because it cannot be used without infringing other outstanding patents, or (2) it would be held that the license of part of the blocking patent complex carried with it an implied license to utilize the remaining part of the complex.

"The only relief a court could logically give in such a case is a privilege to use all the blocking patents or none of them. For this reason, we cannot see how it would be unreasonable for the parties, under these circumstances, to negotiate on an all or nothing basis from the beginning."

THE HOLDING OF THE COURT BELOW DOES NOT CONFLICT WITH THE DECISION OF THE COURT OF APPEALS FOR THE THIRD CIRCUIT IN AMERICAN SECURIT v. SHATTERPROOF GLASS CO., 268 F.2d 769.

Petitioners assert that the decision below is in "irreconcilable conflict" with *Securit*. (P.B. 7.) This is not so. Instead the two decisions are in full harmony with each other.

As noted by the Court below with regard to *Securit*, which involved mandatory package licensing of 31 patents and one patent application:

> "That case is different from the one before us in that it involved competing, rather than blocking, patents. In our opinion this distinction is an important one. Involved in the Securit case were method patents which, although they produced the same result, could possibly be used independently without infringing one another. The evil of mandatory package licensing in that case was that the prospective licensee, in order to obtain a license under one patent, would be compelled to accept licenses under patents that were not necessarily needed. The same evil does not arise in mandatory package licensing of blocking patents. In such a case, the prospective licensee is being compelled to accept no more than he would, in any event, have to obtain in order to make worthwhile a license under any of the patents."

Thus, under *Securit*, if a prospective licensee wants to make a particular product covered by one patent, it is unlawful to license him under that patent if he is also required to take a license under some other patent not covering the product. On the other hand, under the decision of the Court below, if a prospective licensee wants

to make a particular product covered by two blocking patents, then it is proper to require him to take a license under both patents covering that particular product.

Thus, instead of being in "irreconcilable conflict", the two decisions each reach proper results in different situations, depending upon whether the patents are "competing" or "blocking".

THE DECISION BELOW WILL PROMOTE, RATHER THAN RESTRAIN, COMPETITION.

Petitioners argue that it is necessary for this Court to review and strike down the decision below in order to prevent the lower courts from developing a tendency or pursuing an effort to hold patents to be "blocking" rather than "competing" and to strain to find all patents of a package to be valid. (P.B. 8.)

Respondent submits that there is no basis for petitioners' fears, which are purely hypothetical and based upon an assumption that the lower courts will not perform their proper duties. Such an indictment of our Courts, by petitioners, is unjustified.

Petitioners further argue that the effect of the decision below will further "predatory practices", will "upgrade the value of multiple-patent ownership" and "downgrade the value of individual inventions and ownership of single patents in derogation of the constitutional concept of promoting the progress of science and the useful arts." (P.B. 8-9.) However, the decision below concerns itself *only* with blocking patents and follows the reasoning expressed

by the majority opinion of this Court in *United States v. Line Material Co.*, 333 U.S. 287:

> "* * * Only when both patents could be lawfully used by a single maker could the public or the patentees obtain the full benefit of the efficiency and economy of the inventions. * * *"

THERE ARE NO RELATED ISSUES BETWEEN THE PRESENT MATTER AND SUSSER ET AL. v. CARVEL CORPORATION ET AL., 2 CIR., NO. 355, OCTOBER TERM, 1964.

Petitioners suggest that their petition be granted so that the questions presented here can be considered by this Court "along with the analogous and related questions presented by the petitioners for writ of certiorari in *Susser et al. v. Carvel Corporation et al.*, No. 355, October Term, 1964. (P.B. 10.)

This suggestion is not understood. The present matter involves merely the question of the licensing of two blocking patents covering a single particular product, whereas *Susser* is concerned with a tying arrangement wherein a trademark and patent owner has licensed the trademark and patents upon a condition that the licensee surrender his right to negotiate with suppliers of his own choice in connection with price, delivery and other aspects relating to unpatented goods.

There are no related issues between these two matters. A consideration of the problems involved in the "tied" and "tying" products of *Susser* would not have any bearing on a situation involving blocking patents covering a single product, and vice versa.

CONCLUSION

It is respectfully submitted that the petition for writ of certiorari be denied.

Dated, San Francisco, California,
November 24, 1964.

Respectfully submitted,

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